

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE BIG SANDY WATER)
DISTRICT ORGANIZED PURSUANT TO CHAPTER)
74 OF THE KENTUCKY REVISED STATUTES, OF)
BOYD COUNTY, KENTUCKY, FOR (1) A CERTIFI-)
CATE OF PUBLIC CONVENIENCE AND NECESSITY,)
AUTHORIZING AND PERMITTING SAID WATER)
DISTRICT TO CONSTRUCT A NEW WATERWORKS)
DISTRIBUTION SYSTEM, CONSISTING OF A)
PUMPING STATION, TANK SITES, AND THE)
NECESSARY DISTRIBUTION SYSTEM AND LINES)
NEEDED TO SERVE WATER TO SAID DISTRICT:)
(2) APPROVAL OF THE PROPOSED PLAN OF)
FINANCING OF SAID PROJECT: AND (3))
APPROVAL OF THE WATER RATES PROPOSED TO)
BE CHARGED BY THE DISTRICT TO CUSTOMERS)
OF THE DISTRICT)

CASE NO. 8197

O R D E R

Preface

On May 8, 1981, the Big Sandy Water District ("Utility") filed with this Commission its duly verified application seeking a certificate of public convenience and necessity authorizing the construction of a new waterworks system. The Utility also seeks approval of the proposed plan for financing the project and approval of its proposed initial rates for providing water service to approximately 416 1/ customers located within its

1/ The 416 customers include 404 homes, 2 small mobile home parks, 2 schools and 8 industrial customers (Transcript of Evidence, August 26, 1981, pp. 15 and 43).

service area boundaries 2/ in southern Boyd County, Kentucky.

The case was heard at the Commission's offices in Frankfort, Kentucky, on August 26, 1981.

A copy of a letter from the Division of Water of the Kentucky Department for Natural Resources and Environmental Protection approving the Utility's plans and specifications for the proposed project is on file with this Commission.

Test Period

This is a proposed rather than an operating utility and test year information does not exist. Estimated pro forma expenses were, therefore, utilized for the determination of revenue requirements and the rates that should produce the required revenue.

Findings In This Matter

The Commission, after a review of the record and being advised, is of the opinion and finds that:

1. The public convenience and necessity require that the waterworks project proposed by the Utility be constructed in Boyd County, Kentucky, as defined by the contract plans and specifications filed in this record.

2. Any construction deviations from the contract plans and specifications herein approved, which could adversely affect service to any customer, shall be subject to the prior approval of this Commission.

2/ Generally that area of Boyd County south of I-64.

3. The project proposed for construction by the Utility includes: the development of four water wells as a source of supply; a water treatment system; a booster pumping station; water storage tanks of 300,000, 220,000 and 55,000 gallon capacity; approximately 42.65 miles of distribution mains (24,700 feet of 10-inch, 71,550 feet of 8-inch, 36,350 feet of 6-inch, 47,200 feet of 4-inch and 44,500 feet of 3-inch); six fire hydrants; various valves (gate valves, pressure reducing valves, blow-off valves and air release valves); 421 customer service connections with 5/8" x 3/4" meters and 5 customer connections with 2-inch meters; and other miscellaneous items and appurtenances. Four construction contracts, in accordance with low bids totaling \$2,406,239, are to be awarded. The indirect construction costs (the Engineer's 3/ design and supervision of construction, attorney's fees, 4/ land and rights-of-way, contingencies and cost of interest during construction) bring the total cost of this project to \$2,970,000.

4. The Utility has secured the required \$2,970,000 financing for this project as follows: \$50,000 in contributions

3/ Kenco Associates, Inc., ("Engineer") prepared the engineering plans, specifications, etc., and will be responsible for supervision of construction to insure that the work performed is in accordance with the work as bid.

4/ The firm of Rubin and Hays has provided legal services and is acting as bond counsel for the Utility.

from applicants for service, a \$50,000 grant from Economic Aid Grant Funds, a \$200,000 grant from the FIVECO Area Development District, a \$700,000 grant and a \$910,000 loan from FmHA 5/ and a \$1,060,000 grant from the Appalachian Regional Commission.

5. The \$2,970,000 financing is for lawful objects within the corporate purpose of the Utility, is necessary and appropriate for and consistent with the proper performance by the Utility of its service to the public and should not impair its ability to perform that service.

6. The financing plan for this project provides for a \$25,000 initial operations and maintenance fund to be used by the Utility to supplement its revenues during initial operations. Further, this \$25,000 initial operations and maintenance fund should be established by the Utility to be utilized proportionately over the first 3 years or more of operations as set forth in the FmHA letter of conditions dated January 25, 1979.

7. The Utility's total annual expenses, as estimated by the Engineer are \$135,545, including operating expenses of \$32,500, depreciation expense of \$38,300 and debt service on \$910,000 of long-term debt of \$64,745 to provide the 1.2 coverage required by FmHA. The Commission finds, however, that the \$38,300 includes

5/ Debt service on the \$910,000 loan has been computed herein on the basis of a 40-year amortization period at 5% interest. The actual rate of interest will be as required by FmHA at the time the loan is closed.

depreciation on contributed plant which comprises approximately 68.5% of depreciable assets and has, therefore, reduced the annual allowance for this expense to \$27,100. 6/ The Commission finds an annual revenue requirement of \$124,345 to be reasonable.

8. Annual revenues of approximately \$120,500 should be produced by the rates in Appendix A which is attached hereto and made a part hereof. These revenues along with a reasonable apportionment of the Utility's \$25,000 reserve fund should be adequate to meet the Utility's expenses found reasonable herein for its initial operating year and, when combined with the revenue increases produced from the projected growth in number of customers and water usage, should continue to provide for coverage of operating expenses, debt service, depreciation and the accumulation of a reasonable surplus for the first several years of operation.

9. The Appendix A rates, proposed by the Utility, should be approved to expedite the awarding of contracts for construction of the proposed water system and the sale of revenue bonds for the financing thereof. The record in this matter does not, however, provide a basis for concluding that these rates are fair, just and reasonable for all classes of customers to be served by

6/ \$27,100 is 31.5% of the composite depreciation of \$86,060 on \$2,895,000 depreciable assets. \$2,895,000 is \$2,970,000 less \$50,000 land and rights-of-way and the \$25,000 fund for operations and maintenance reserve.

the Utility. The Commission, therefore, finds that the Utility should file, within 60 days of the date of this Order, an engineering analysis of the cost of providing service to the various classes of customers served by the Utility.

10. Those customers who will receive water service from that part of the system which has fire flow capacity 7/ will be provided with a benefit that is not available to other customers and should pay an additional monthly fee therefor. The Utility should, within 60 days of the date of this Order, provide this Commission with its recommendations on this matter including the number of customers affected and the amount of the proposed additional fee. Further, this matter should be covered in the Utility's official rules and regulations and its tariffs that are to be filed with this Commission.

11. The periodic reading of customers' meters should be to the nearest 100 gallons of usage, and the Utility's bills should be for usage based on the number of 100 gallons actually used with quantities of usage less than 100 gallons carried over to the next billing period. This method of billing is more fair and reasonable than that proposed by the Utility's Engineer 8/ wherein customers would be billed for a full 1,000 gallon unit when only part of that 1,000 gallon unit was used.

7/ Transcript of Evidence, August 26, 1981, pp. 26-27.

8/ Transcript of Evidence, August 26, 1981, pp. 13-14, 21-22.

12. The Utility should require that all residential dwelling units be individually metered. This includes each mobile home site in a mobile home park and each dwelling unit of multi-family housing. This requirement should be a part of the Utility's rules and regulations for providing service. Individual metering should result in customers paying equivalent bills for equivalent usage as required by KRS 278.170.

13. The three subdivisions with existing water service 9/ should be served by the Utility if they request this service and an appropriate agreement is reached. The Utility should insure that no cross-connections between its public water supply and any private water supply result from serving these subdivisions.

14. The last sentence of Section 6(1) of 807 KAR 5:006E states, "In no event, however, shall the pressure at the customer's service pipe under normal conditions fall below 30 psig nor shall the static pressure exceed 150 psig." The record 10/ indicates that an in-line booster pump may be required to satisfy the above-quoted requirement for those customers located near the Bolling Drive storage tank. This in-line booster should be installed in such a manner as to provide reliable and adequate service without unreasonable fluctuations in pressure.

9/ Transcript of Evidence, August 26, 1981, pp. 31-32.

10/ Transcript of Evidence, August 26, 1981, p. 19.

15. The Utility's standard customer service meter should be a 5/8" x 3/4" meter which should be installed at all points of service unless an applicant provides sufficient justification for the installation of a larger meter. The monthly bills for customers with non-standard meters, with the exception of special contract customers, should be in accordance with the Utility's approved meter size rate schedules.

16. The Utility should file with this Commission a copy of all contracts concerning services provided by or contracted for the Utility which are subject to approval by this Commission.

17. The Utility should furnish the Commission with duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

18. The contract between the Utility and the Engineer should require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

19. Within 60 days of the date of substantial completion of this construction, the Utility should require the Engineer to furnish this Commission with a copy of the as-built plans and a certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

Orders In This Matter

The Commission, on the basis of the matters hereinbefore set forth and the evidentiary record in this case:

HEREBY ORDERS that the Big Sandy Water District be and it is hereby granted a certificate of public convenience and necessity for construction of a new waterworks system in the area set forth in the application in accordance with the contract plans and specifications of record in this matter.

IT IS FURTHER ORDERED that any construction deviations from the contract plans and specifications approved herein, which could adversely affect the service to any customer, shall be subject to the prior approval of this Commission.

IT IS FURTHER ORDERED that the Utility be and it is hereby authorized to finance its proposed construction by means of the \$2,970,000 financing that has been secured as follows: \$50,000 in contributions from applicants for service, a \$910,000 40-year FmHA loan at FmHA's current rate of interest (secured by revenue bonds), an FmHA grant of \$700,000, a \$1.060,000 Appalachian Regional Commission grant, a \$50,000 grant from Economic Aid Grant funds and an Area Development Funds grant of \$200,000. Further, this \$2,970,000 in project funds shall be used only for the lawful objects of the Utility as set forth in the application.

IT IS FURTHER ORDERED that the Utility shall establish a \$25,000 initial operations and maintenance fund to be utilized

proportionately over the first 3 years or more of operations to supplement its operating revenues as required by the FmHA letter of conditions dated January 25, 1979.

IT IS FURTHER ORDERED that the rates in Appendix A, attached hereto and made a part hereof, be and they are hereby approved as the rates of the Utility for services rendered on and after the date that water service is initiated as set forth in findings number eight and nine herein.

IT IS FURTHER ORDERED that an engineering analysis of the costs of providing service to all classes of customers served by the Utility be filed with this Commission within 60 days of the date of this Order as set forth in finding number nine herein.

IT IS FURTHER ORDERED that the Utility shall file a report with this Commission within 60 days of the date of this Order setting forth therein a listing of customers who will be directly benefited by that part of the waterworks distribution system which has fire flow capacity and the proposed fee applicable to this service as set forth in finding number 10 herein.

IT IS FURTHER ORDERED that bills for water usage should be for the nearest 100 gallons actually metered as set forth in finding number 11 herein.

IT IS FURTHER ORDERED that all residential dwelling units shall be individually metered as set forth in finding number 12 herein.

IT IS FURTHER ORDERED that a 5/8" x 3/4" meter shall be the standard customer service meter and should be installed at all points of service unless the customer provides sufficient justification for the installation of a larger meter. Further, any customer with a larger meter, with the exception of special contract customers, shall pay for that service in accordance with the Utility's approved meter size rate schedule.

IT IS FURTHER ORDERED that the Utility shall file with this Commission all contracts concerning services provided by or contracted for the Utility which are subject to the Commission's approval within 120 days of the date of this Order.

IT IS FURTHER ORDERED that the Utility shall file with this Commission duly verified documentation showing the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.) within 60 days of the date that construction is substantially completed.

IT IS FURTHER ORDERED that the contract between the Utility and the Engineer shall require the Engineer to provide general engineering supervision and full-time resident inspection under his supervision to insure that the contractor's construction work conforms to the best construction practices and is done in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that the Utility shall require the Engineer, within 60 days of the date of substantial completion of the proposed construction, to furnish this Commission with a copy of the as-built plans and a certification that the construction has been satisfactorily completed in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that the Utility shall file with this Commission its tariff sheets setting forth the rates and charges approved herein and all rules and regulations of the Utility within 120 days of the date of this Order.

Nothing contained herein shall be deemed a warranty by the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky this 15th day of October, 1981.

PUBLIC SERVICE COMMISSION

Chairman

Laverne Randall

Vice Chairman

Ann Carrigan

Commissioner

ATTEST:

Secretary

Done at Frankfort, Kentucky, this 15th day of October, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Toth
Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION OF KENTUCKY IN CASE NO. 8197 DATED
OCTOBER 15, 1981.

The following rates and charges are prescribed for water services rendered to all customers served by the Big Sandy Water District of Boyd County, Kentucky. These are the initial rates for this new water system.

GALLONAGE BLOCKS FOR
EACH METER SIZE

MONTHLY RATE FOR EACH
GALLONAGE BLOCK

5/8 inch x 3/4 inch Meter

First 2,000 gallons	\$ 9.50 (Minimum Bill)
Next 8,000 gallons	3.50 per 1,000 gallons
Next 20,000 gallons	2.75 per 1,000 gallons
Next 20,000 gallons	2.25 per 1,000 gallons
Next 50,000 gallons	1.75 per 1,000 gallons
Over 100,000 gallons	1.00 per 1,000 gallons

3/4 inch Meter

First 5,000 gallons	\$20.00 (Minimum Bill)
Next 5,000 gallons	3.50 per 1,000 gallons
Next 20,000 gallons	2.75 per 1,000 gallons
Next 20,000 gallons	2.25 per 1,000 gallons
Next 50,000 gallons	1.75 per 1,000 gallons
Over 100,000 gallons	1.00 per 1,000 gallons

1 inch Meter

First 10,000 gallons	\$37.50 (Minimum Bill)
Next 20,000 gallons	2.75 per 1,000 gallons
Next 20,000 gallons	2.25 per 1,000 gallons
Next 50,000 gallons	1.75 per 1,000 gallons
Over 100,000 gallons	1.00 per 1,000 gallons

1½ inch Meter

First 30,000 gallons	\$92.50 (Minimum Bill)
Next 20,000 gallons	2.25 per 1,000 gallons
Next 50,000 gallons	1.75 per 1,000 gallons
Over 100,000 gallons	1.00 per 1,000 gallons

2 inch Meter

First 50,000 gallons	\$137.50 (Minimum Bill)
Next 50,000 gallons	1.75 per 1,000 gallons
Over 100,000 gallons	1.00 per 1,000 gallons

3 inch Meter

First 100,000 gallons	\$225.00 (Minimum Bill)
Over 100,000 gallons	1.00 per 1,000 gallons

4 inch Meter

First 200,000 gallons	\$325.00 (Minimum Bill)
Over 200,000 gallons	1.00 per 1,000 gallons

CHARGES FOR METERED SERVICE CONNECTIONS - The following charges shall become effective on and after the date that construction of the water mains is completed.

Meter Size

Service Connecting Charge

5/8 inch x 3/4 inch	\$400
3/4 inch	475
1 inch	750
Larger than 1 inch	Actual cost of installation.